

# IRS



## Fact Sheet

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### Reporting Miscellaneous Income

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While most people are aware they must include wages, salaries, interest, dividends, tips and commissions as income on their tax returns, many don't realize that they must also report most other income, such as:

- Cash earned from side jobs
- Barter exchanges of goods or services
- Awards, prizes, contest winnings
- Gambling proceeds

This fact sheet, the eighteenth in the Tax Gap series, will help taxpayers better understand miscellaneous income and what they are required to report as taxable on their Form 1040.

[The tax gap](#), or the amount of taxes that go unpaid each year, results from taxpayers underreporting their taxable income. Fortunately most people want to pay their fair share of taxes and many simply need a better understanding of their obligations.

### What is Taxable?

Taxpayers must report all income from any source and any country unless it is explicitly exempt under the U.S. tax code. There may be taxable income from certain transactions even if no money changes hands.

Generally, the IRS considers all income received in the form of money, property or services to be taxable income unless the law specifically provides an exemption. This document discusses a few types of reportable income. Information on how to report other types of income can be found in [Publication 525](#), *Taxable and Nontaxable Income*.

### Self-Employment Income

It is a common misconception that if a taxpayer does not receive a Form 1099-MISC or if the income is under \$600 per payer, the income is not taxable. There is no minimum amount that a taxpayer may exclude from gross income.

All income earned through the taxpayer's business, as an independent contractor or from informal side jobs is self-employment income, which is fully taxable and must be reported on Form 1040.

Use [Form 1040, Schedule C](#), *Profit or Loss from Business*, or [Form 1040, Schedule C-EZ](#), *Net Profit from Business (Sole Proprietorship)* to report income and expenses. Taxpayers will also need to prepare Form 1040 Schedule SE for self-employment taxes if the net profit exceeds \$400 for a year. Do not report this income on Form 1040 Line 21 as Other Income.

Independent contractors must report all income as taxable, even if it is less than \$600. Even if the client does not issue a Form 1099-MISC, the income, whatever the amount, is still reportable by the taxpayer.

Fees received for babysitting, housecleaning and lawn cutting are all examples of taxable income, even if each client paid less than \$600 for the year. Someone who repairs computers in his or her spare time needs to report all monies earned as self-employment income even if no one person paid more than \$600 for repairs.

### **Bartering**

Bartering is an exchange of property or services. The fair market value of goods and services exchanged is fully taxable and must be included on Form 1040 in the income of both parties.

An example of bartering is a plumber doing repair work for a dentist in exchange for dental services. Income from bartering is taxable in the year in which the taxpayer received the goods or services.

### **Gambling winnings**

Gambling winnings are fully taxable and must be reported on Form 1040.

Gambling income includes, among other things, winnings from lotteries, raffles, horse races, poker tournaments and casinos. It includes cash winnings as well as the fair market value of prizes such as cars and trips.

Even if a W-2G is not issued, all gambling winnings must be reported as taxable income regardless of whether any portion is subject to withholding. In addition, taxpayers may be required to pay an estimated tax on the gambling winnings.

Losses may be deducted only if the taxpayer itemizes deductions and only if he or she also has gambling winnings. The losses deducted may not be more than the gambling income reported on the return.

### **Prizes and awards**

Subject to certain exceptions, the cash value of prizes or awards won in a drawing, quiz show program, beauty contest, or other event, must be included on the tax return as taxable income.

Taxpayers must also report the fair market value of merchandise or products won as a prize or award, as taxable income.

For example, both a \$500 cash prize and the fair market value of a new range won in a baking contest must be reported as other income on Form 1040, Line 21.

**Related Items:**

- [IRS Publication 525, Taxable and Nontaxable Income](#)
- [IRS Publication 505, Tax Withholding and Estimated Tax](#)
- [IRS Publication 529, Miscellaneous Deductions](#)